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March 19, 1993

**HAND DELIVERED**

Lowell Braxton  
Acting Director  
UTAH DIVISION OF OIL, GAS & MINING  
3 Triad Center, Suite 350  
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Salt Lake City, Utah 84180

**RECEIVED**

MAR 22 1993

DIVISION OF  
OIL GAS & MINING

RE: Office of Surface Mining ("OSM") Ten-Day Notice No. 93-02-250-001  
("TDN"), Division of Oil, Gas & Mining's ("Division's") Letter of  
February 26, 1993, Permit No. ACT/007/007

Dear Lowell:

At the request of Sunnyside Coal Company ("SCC"), this letter responds to questions raised by the Division regarding the adequacy of collateral securing SCC's reclamation liability for the Sunnyside Mine, Permit No. ACT/007/007. On Tuesday, March 16, 1993, SCC met with you and Lowell Braxton to respond to the Division's letter of February 18, 1993 and to OSM's TDN regarding alleged inadequacies in SCC's reclamation bond for Permit No. ACT/007/007 (the "Permit"). This letter responds to questions raised by the Division during that meeting and elaborates on the March 10, 1993 letter which we prepared on behalf of SCC.

First, it was our understanding from the March 16 meeting that the Division does not intend to increase the current bonding liability of the Permit. The Division acknowledged that SCC has secured the reclamation liability pursuant to a Deed of Trust and Security Agreement dated March 9, 1989 ("Original Agreement"). The Division further acknowledged that it holds a reclamation bond from Sunnyside Cogeneration Associates in the amount of \$1.5 million which duplicates the Tailings Reclamation Cost set forth in the Original Agreement. SCC's remaining Mine Reclamation Cost under the Original Agreement is currently estimated as \$2,091,532.00 as set forth in a pending Permit revision submitted March 16, 1993.

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As set forth in the March 10, 1993 letter and in discussions with the Division, the \$2,091,532.00 reclamation liability for the Permit is more than adequately secured by the original Deed of Trust and Security Agreement and by a \$75,000.00 Certificate of Deposit. SCC assets pledged to secure the reclamation liability are described in Table A attached to our letter of March 10, 1993. As we discussed at our meeting on March 16, the recent appraisals by George Fuji and Jeffery Anderson only address the mountain property and associated water rights. The average appraised value of this portion of the collateral is \$747,500.00. In addition, we have enclosed Exhibits 1 and 2 describing real property not included in the 1993 appraisals but secured by the original Deed of Trust. SCC has revised its estimate of the appraised value of this property from \$1,472,595.00 to \$1,147,500.00. This value is based on the 1991 appraisal by Brockbank & Associates. This new estimate deletes the coke oven area and includes lots within the City of Sunnyside. The estimated value of water rights pledged under the Deed of Trust and Security Agreement is currently being estimated by Steve Clyde, Esq. A preliminary estimate will be prepared by Mr. Clyde by April 1, 1993. As indicated in Table A of the March 10, 1993 letter, SCC estimates that these water rights are valued at \$725,000.00.

In addition to real property secured by the Deed of Trust, SCC has pledged approximately \$12,108,172.84 worth of personal property to the State of Utah under the Original Agreement. The appraised value of the personal property and equipment was determined by Mountain States Machinery in early 1992. See enclosed Appraisal attached at Exhibit 3. Mountain States Machinery is preparing a Statement of Qualifications and has agreed to allow the State of Utah to rely on its appraisal. Our Uniform Commercial Code ("UCC") records check, attached as Exhibit 4, shows the following encumbrances in the total amount of \$924,368.00 which SCC confirms are still valid and enforceable as of this date:

UCC-1, Entry No. 341804, dated November 12, 1992, securing Joy Technologies, Inc., affecting one Rebuilt Joy Shearer, Model 3LS, Serial No. LWS235 and one rebuilt Joy Miner, Model 12CM7-10BX, Serial No. JM2554 (\$644,819.00).

UCC-1, File No. 278820, dated March 14, 1991, securing IBM Credit Corporation, encumbering computer equipment (\$60,136.00).

UCC-1, Entry No. 275446, dated March 7, 1991, securing Castle Gate Coal Company, encumbering a Rebuilt Kloeckner-Becovit UFV 34/70 Face Conveyor, ID No. 004.02 (\$34,375.00).

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UCC-1, Entry No. 217204, dated August 30, 1989, securing Zions First National Bank, encumbering all stockpiled coal inventory, other inventory accounts, accounts receivable, contract rights, instruments, machinery and equipment, specifically including a Halbach & Braun Face Conveyor, 125 Westfalia Two-leg Shields, and Wagner LST-55-20X Diesel Scoop (\$185,038.00).

Our UCC search also revealed several UCC filings which SCC indicates have been paid in full. SCC will obtain UCC-3 release forms from the following secured parties by April 30, 1993:

Zions First National Bank, regarding UCC filing No. 264896;  
Joy Technologies, Inc. regarding UCC filing No. 277020;  
Joy Technologies, Inc. regarding UCC filing No. 293227;  
Wheeler Machinery regarding UCC filing No. 288088;  
J.H. Flescher & Co. regarding UCC filing No. 280387;  
Fairmont Supply Co. regarding UCC filing No. 277105;  
Long-Airdox Co. regarding UCC filing No. 197675;  
Century Lubricating Oils regarding UCC filing No. 239507;  
Goodyear Glide Conveyor Belt Co. regarding UCC filing No. 277185; and  
EIMCO Machinery, Inc. regarding UCC filing No. 261318.

With respect to the State's secured interest in after-acquired property, please note the Agreement and Release of Reclamation Contract dated August 28, 1989 between the Division and Sunnyside Reclamation & Salvage, Inc. ("SR&S"). Paragraph 5 of this Agreement indicates: "All tangible equipment and personal property acquired by SR&S after the date hereof for the use of Sunnyside Mines shall, immediately upon the acquisition thereof by SR&S, become subject to the lien of the instrument as modified by the Subordination Agreement." This Agreement extends the Division's secured interest to the "after-acquired property" listed on Mountain States Machinery appraisal.

In addition, enclosed for your review is an Amended Deed of Trust and Security Agreement, attached as Exhibit 5, and UCC-1 Financing Statement, attached as Exhibit 6, which updates the State's security interest in the real property and personal property securing the original Deed of Trust and Security Agreement ("Amended Agreement"). As you will note, the Amended Agreement releases SCC from obligations secured by Sunnyside Cogeneration Associates' bond in the amount of \$1.5 million for the

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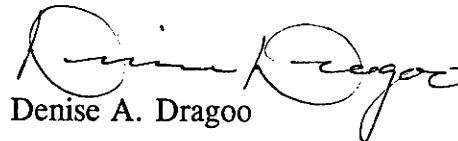
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Tailings Reclamation Costs. In addition, the Amended Agreement also includes an "after-acquired property" clause.

Please review these documents and give me a call with any suggested changes or revisions to the Amended Deed of Trust and Security Agreement and the UCC-1 form.

Thank you for your assistance in this matter.

Very truly yours,

  
Denise A. Dragoo

DAD:jmc:8226

Enclosures

cc: Joe Fielder  
Gary Gray  
Bob Burnham  
Thomas Mitchell, Esq.